A Monthly Report from The Conference Board

# INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

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DECEMBER, 1985

## SUMMARY

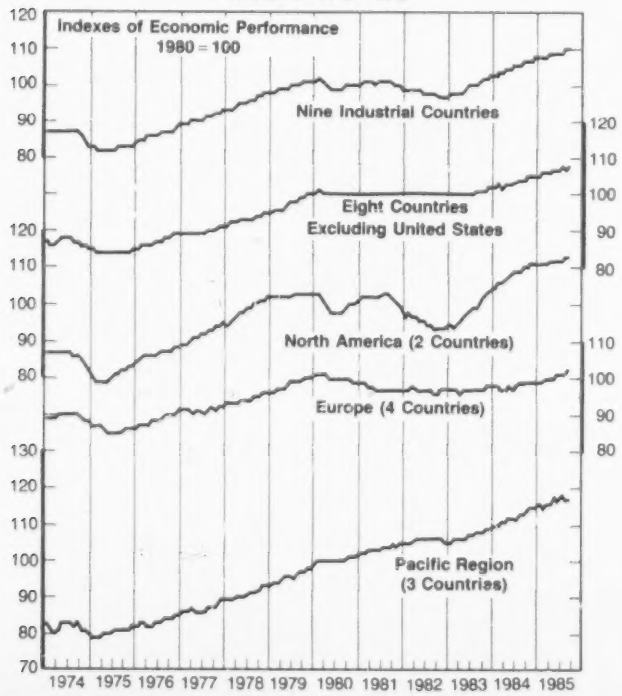
The approach of the holiday season is lifting economic spirits in most of the industrial world. The leading indexes are showing good strength in seven of the nine industrial countries. The exceptions are the United Kingdom and Japan, where the latest annual rates of change are – 1 percent and 1 percent, respectively. In Japan, where the leaders were expanding very briskly until midyear, the shift toward weakness has developed quite abruptly. The U.S. index has been gaining strength, with the most recent growth rate hitting 4 percent. The indexes for France, Canada, West Germany and Italy are picking up speed also, but are still no match for Australia and Taiwan, R.O.C., where double-digit growth rates prevail.

The economic performance indexes are more sedate; they continue to register expansion in each of the nine countries, mostly in the 2 to 5% range. But Australia's performance index has reached an impressive 10 percent growth rate, whereas Japan's is down to 1 percent.

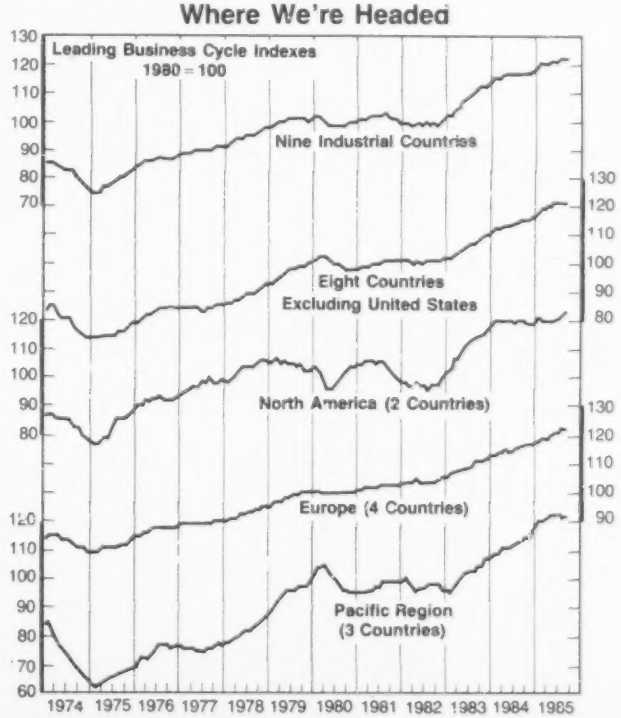
| | Ten-year Growth Rate 1969-79 | Leading Business Cycle Indexes Growth Rates* 6 mos. ago | 3 mos. ago | Latest month | Indexes of Economic Performance Growth Rates* 6 mos. ago | 3 mos. ago | Latest month | Current Reading on the Cycle | Latest Month Covered |
|---|---|---|---|---|---|---|---|---|---|
| | annual rates, percent | | | | | | | | |
| 9 countries | 4 | 5 | 4 | 5 | 3 | 3 | 3 | Expansion continuing | Sept. |
| 8 countries ex. U.S. | 4 | 8 | 7 | 4 | 3 | 3 | 3 | Expansion continuing | Sept. |
| Europe (4) | 3 | 6 | 6 | 5 | 2 | 3 | 4 | Expansion continuing | Sept. |
| Pacific Region (3) | 5 | 11 | 9 | 3 | 4 | 4 | 2 | Expansion continuing | Sept. |
| North America (2) | 3 | 1 | 1 | 5 | 3 | 2 | 3 | Expansion continuing | Sept. |
| United States | 3 | 0 | 1 | 4 | 4 | 2 | 3 | Expansion continuing | Oct. |
| Canada | 4 | 4 | 5 | 7 | 4 | 5 | 5 | Expansion continuing | Sept. |
| West Germany | 3 | 7 | 7 | 8 | 3 | 4 | 5 | Expansion continuing | Sept. |
| France | 4 | 6 | 6 | 5 | 0 | 2 | 3 | Expansion continuing | Oct./Sept. |
| United Kingdom | 2 | 4 | 2 | –1 | 3 | 3 | 2 | Expansion steady, leaders weak | Sept. |
| Italy | 3 | 8 | 8 | 9 | 2 | 3 | 2 | Expansion continuing | Sept./Aug. |
| Japan | 5 | 11 | 9 | 1 | 4 | 3 | 1 | Expansion slowing | Sept. |
| Australia | 4 | 11 | 13 | 13 | 6 | 6 | 10 | Expansion continuing | Sept. |
| Taiwan, R.O.C. | 10 | 4 | 6 | 10 | 4 | 0 | 3 | Expansion reviving | Oct. |

* Ratio of current month's index to average index over the preceding 12 months, expressed as a compound annual rate.

## Where We Are




## Where We're Headed

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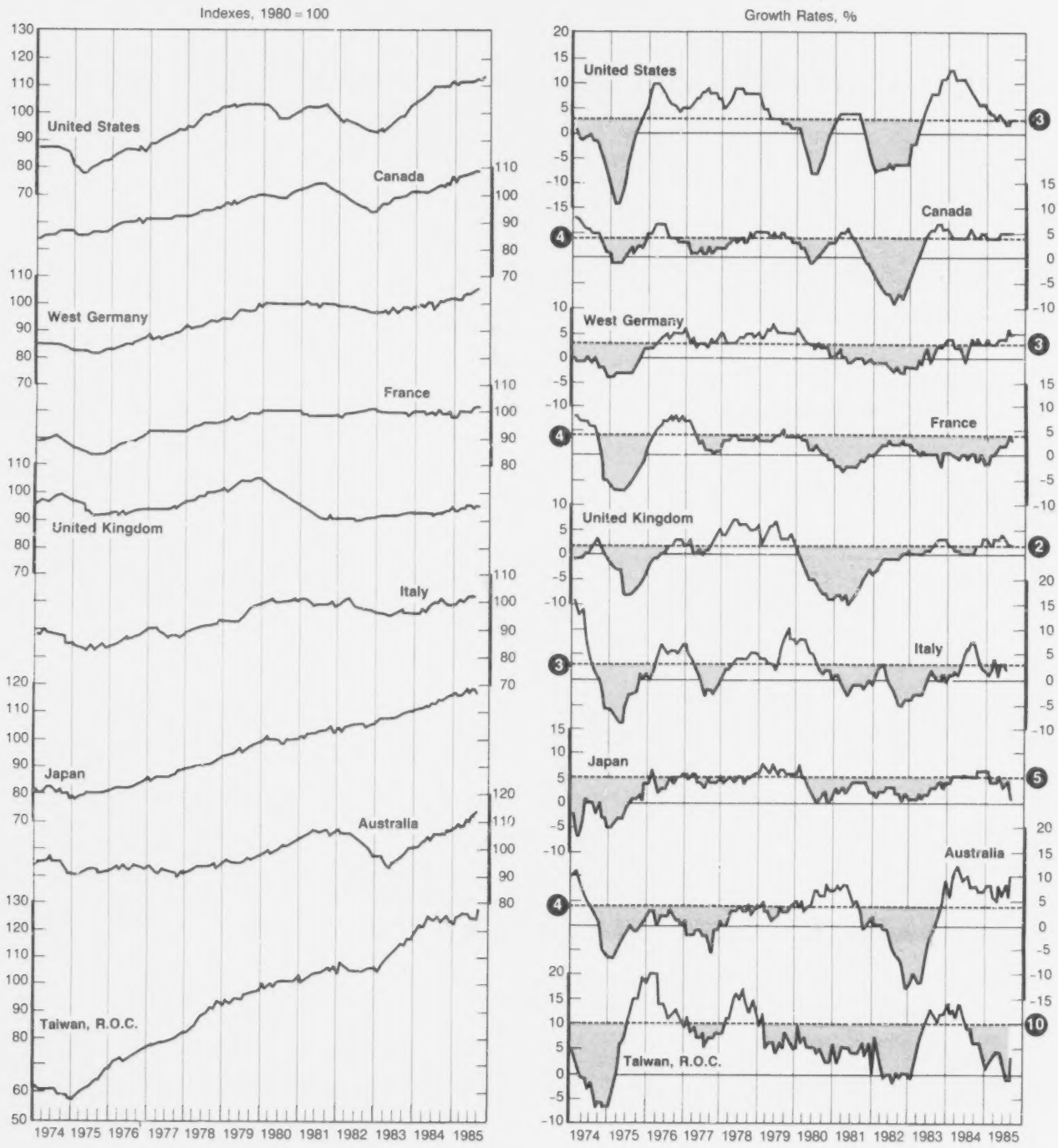
# Where We Are

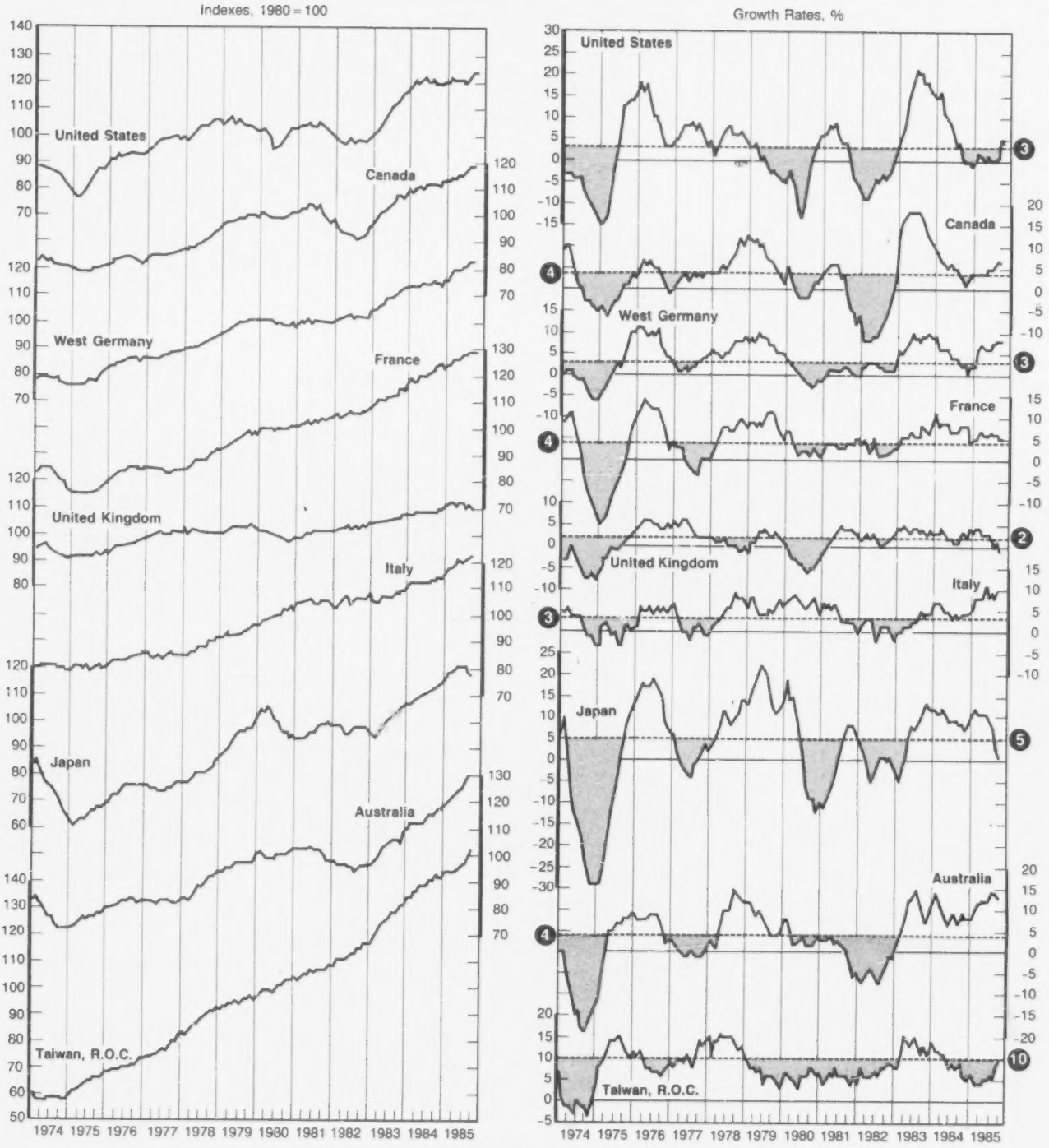
**Indexes of Economic Performance**




Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP.
Sources: CIBCR and The Conference Board

## Where We're Headed

**Leading Business Cycle Indexes**




Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP
Sources: CIBCR and The Conference Board

## PERCEPTIVE

By design, the Scoreboard focuses almost all of its attention on current developments and near-term prospects. Every so often, however, it is useful to take a longer look to put matters in perspective. We do this with the chart on the next page, which shows the growth rates for the past three decades in the leading and performance indexes for the United States and for the eight countries combined. These series have quite a few things to say about the international character of business cycles.

1. The first thing the chart makes clear is the well-known relationship between the leading and performance indexes. This close relationship is, of course, the underlying concept of the indicator approach to business cycle analysis, and comparing each leading series (top panel of the chart) with the corresponding performance index below reveals that the economy "follows the leaders" rather faithfully. The average lead times are 4 months in the U.S., 3 months for the eight-country group.

2. Furthermore, the leaders provide an early warning not only of which direction the economy is headed, but also of approximately how fast it's getting there. If the leading index advances at rates well above the long-run trend (3% in the U.S., 4% in the other group), that most likely will be followed by above-average expansion in the performance indexes. Similarly, slow growth in the leaders begets slow growth for the economy. And the same pattern holds on the downside: the farther the leaders sink, the more the economy weakens.

3. Another point the chart makes is that there is considerable correspondence between business cycles in the United States and in other countries. Although it is not true in every instance, most cyclical swings in the U.S. are matched by corresponding swings in the eight-country composite. Note, for example, that five of the six recessions in the U.S. during these three decades (shaded areas in the top line of the bottom panel) are matched by weakness in the eight-country composite. The exception is the 1960-61 recession in the U.S., which came at a time when the other group continued to expand briskly. Two other differences should be noted: first, cyclical weakness appeared in the eight-country index in 1977 when there was hardly any faltering in the U.S. expansion. Second, from 1980 through 1982, when the U.S. had two recessions with a brief recovery in between, the other group stayed mired in recession during all three years. Thus, while there are a few distinct differences in cyclical behavior between the U.S. and the rest of the industrial world, the general pattern is one of fairly close conformity.

4. Also, on the timing of these international cycles, it turns out that U.S. indexes have almost always moved in advance of the eight-country indexes. On average, the U.S. leading index growth rate has crossed the trend line 8 months before the eight-country leading index has crossed its trend line. For the performance indexes, the average lead of the United States index is 9 months. This relationship holds both for downturns and upturns. This provides some support for the frequently heard idea that the U.S. economy serves as a "locomotive" for the rest of the world. The analogy should not be overdrawn, because foreigh trade is still a modest though growing fraction of total economic activity in the U.S. Yet the conformity and timing of business cycles throughout the industrial world argue that to some extent the U.S. locomotive has not only pulled other countries into recession, it has also pulled them out.

5. There is some evidence that the more international recessions are in scope, the more severe they become. In the United States, the 1957-58, 1974-75, and 1981-82 recessions were the most severe of the past thirty years, and on each of those occasions cyclical weakness was present in *all* of the other eight countries. Correspondingly, in 1960-61, when the U.S. had a mild recession, cyclical weakness appeared in only two of the other countries (Canada and Australia). However, the pattern doesn't always hold: The U.S. recession of 1969-70 was a mild one despite the fact that all the other countries also experienced downturns at that time. Accordingly, we have to think of this connection between the international scope of cycles and their severity as a tendency rather than as a fixed rule.

6. Is there a *trend* toward more severe recessions? In the U.S., many people have said, and continue to say, that the 1982 recession was the worst since the 1930s. This was true for quite a number of industries, but the comprehensive U.S. data in our charts don't show it. Abroad, the three-decade record of the economic performance index for the eight countries combined does show a well-defined shift toward more severe cycles. Curiously, however, this idea is not confirmed by the leading index for the eight countries. Thus evidence is mixed and the issue is far from settled.

7. The current position of the indexes, in the light of thirty years of history, looks moderately favorable. It is clearly not the best of times but, just as clearly, not the worst.

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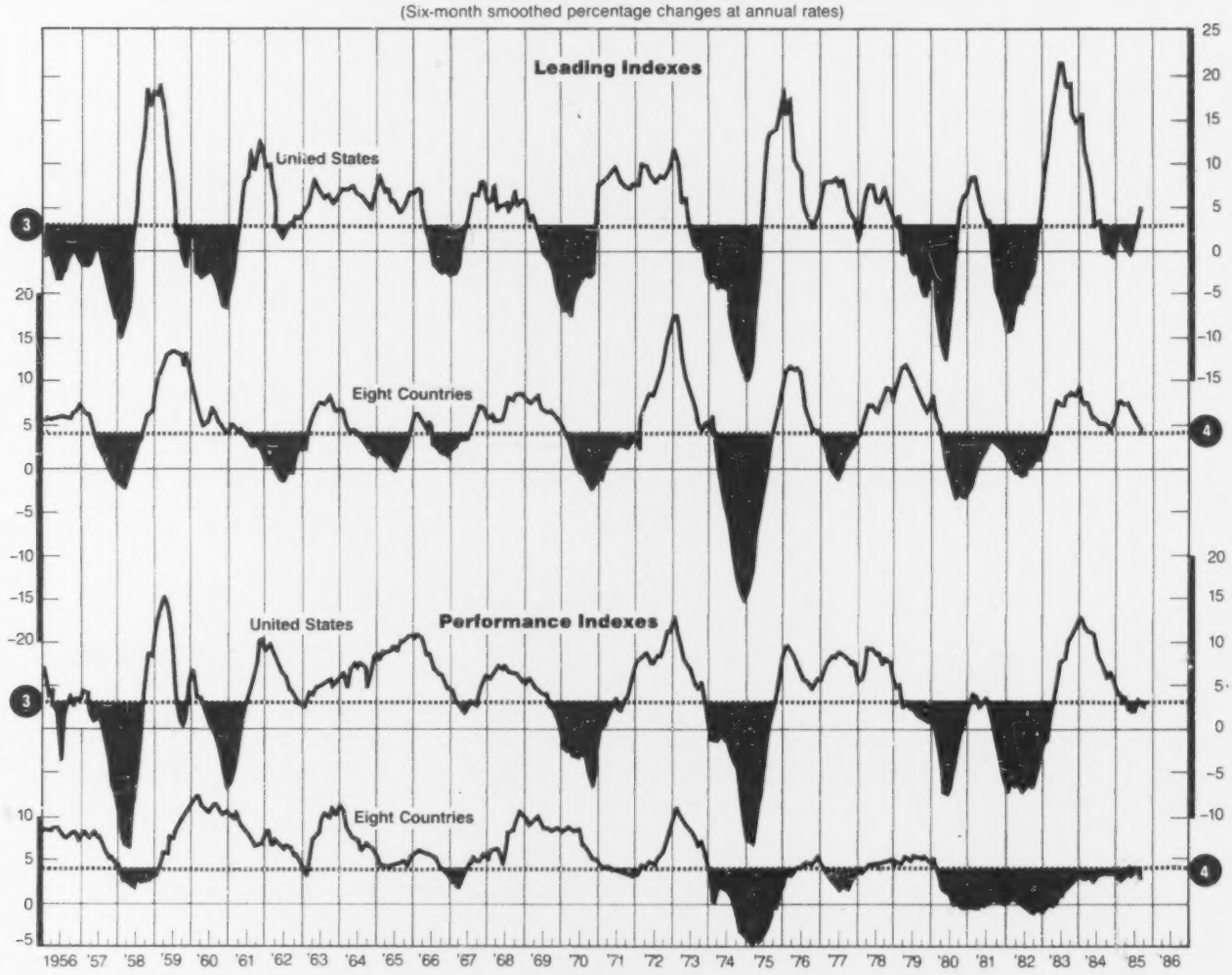
## Growth Rates in Business Cycle Indexes

United States and Eight other Countries

(Six-month smoothed percentage changes at annual rates)


Leading Indexes
United States
Eight Countries
Performance Indexes
United States
Eight Countries
1956 '57 '58 '59 '60 '61 '62 '63 '64 '65 '66 '67 '68 '69 '70 '71 '72 '73 '74 '75 '76 '77 '78 '79 '80 '81 '82 '83 '84 '85 '86

Note: Shaded areas show when the growth rate falls below the long-term trend which is indicated by the dashed horizontal line.
The eight countries are Canada, United Kingdom, West Germany, France, Italy, Japan, Australia and Taiwan, R.O.C.

## THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, two types of index are shown for each country: an index of economic performance and a leading index. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they *define* the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too—typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see "What the Leading Indicators Indicate," *Across the Board,* April 1980 and *Business Cycles, Inflation and Forecasting,* Ballinger Publishing Co., 1983.) Considerable variation in the length of lead is to be expected, however. Constant monitoring is needed to make effective use of the system and get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

### For More Information

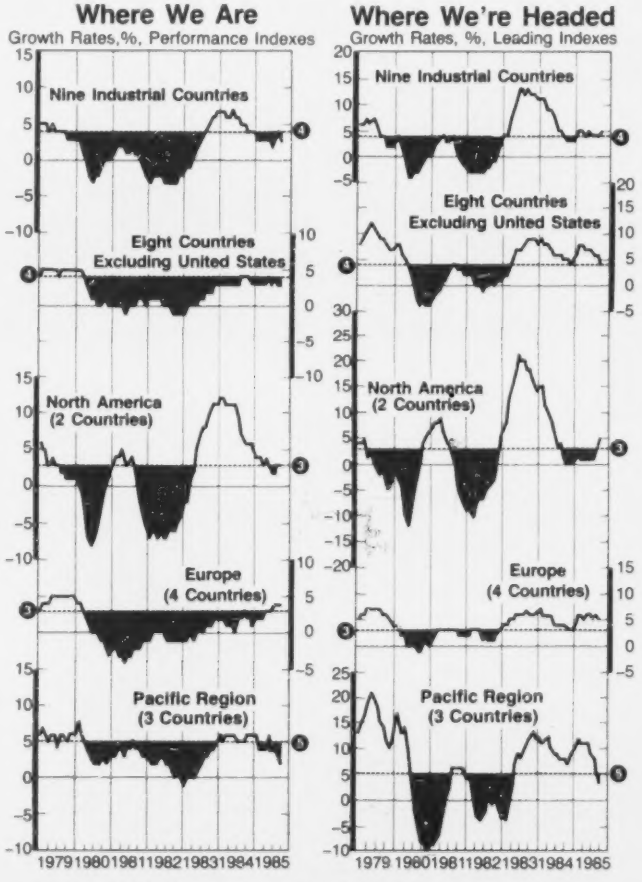
To find out more about this indicator system and the availability of detailed data for each country please address inquiries to:

Center for International Business Cycle Research
Columbia Business School
New York, New York 10027
Telephone: 212-280-2916

## INDEXES, NINE COUNTRIES, 1983-85

| | | U.S. | | Canada | | West Germany | | France | | Italy | | U.K. | | Japan | | Australia | | Taiwan, R.O.C. | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Indexes, 1980 = 100 | | | | | | | | | | | | | | | | | |
| | | Perf. | Lead. | Perf. | Lead. | Perf. | Lead. | Perf. | Lead. | Perf. | Lead. | Perf. | Lead. | Perf. | Lead. | Perf. | Lead. | Perf. | Lead. |
| July | 84 | 110 | 120 | 104 | 112 | 100 | 115 | 100 | 121 | 99 | 112 | 93 | 109 | 113 | 111 | 105 | 114 | 123 | 139 |
| Aug. | 84 | 110 | 121 | 104 | 112 | 101 | 116 | 100 | 122 | 100 | 113 | 93 | 109 | 114 | 112 | 105 | 115 | 124 | 141 |
| Sept. | 84 | 110 | 120 | 104 | 112 | 101 | 115 | 100 | 123 | 101 | 113 | 93 | 109 | 114 | 113 | 106 | 115 | 123 | 141 |
| Oct. | 84 | 110 | 119 | 105 | 111 | 102 | 115 | 99 | 123 | 100 | 114 | 94 | 110 | 115 | 113 | 106 | 116 | 124 | 143 |
| Nov. | 84 | 111 | 120 | 105 | 112 | 102 | 114 | 99 | 124 | 99 | 114 | 94 | 110 | 116 | 113 | 107 | 117 | 125 | 142 |
| Dec. | 84 | 112 | 120 | 106 | 113 | 102 | 116 | 99 | 123 | 99 | 114 | 95 | 111 | 116 | 115 | 107 | 118 | 124 | 142 |
| Jan. | 85 | 111 | 120 | 105 | 113 | 102 | 116 | 98 | 124 | 99 | 116 | 95 | 111 | 117 | 117 | 108 | 119 | 123 | 144 |
| Feb. | 85 | 112 | 122 | 106 | 114 | 102 | 119 | 99 | 125 | 100 | 118 | 94 | 112 | 116 | 119 | 109 | 120 | 124 | 144 |
| Mar. | 85 | 112 | 121 | 106 | 114 | 102 | 120 | 100 | 126 | 101 | 118 | 95 | 112 | 116 | 119 | 108 | 122 | 125 | 144 |
| Apr. | 85 | 112 | 121 | 107 | 115 | 103 | 120 | 100 | 126 | 100 | 119 | 95 | 111 | 117 | 120 | 109 | 123 | 126 | 144 |
| May | 85 | 112 | 121 | 107 | 115 | 104 | 120 | 100 | 127 | 101 | 121 | 96 | 112 | 118 | 121 | 111 | 124 | 126 | 145 |
| June | 85 | 112 | 120 | 108 | 116 | 104 | 121 | 100 | 128 | 102 | 120 | 96 | 112 | 117 | 121 | 110 | 126 | 125 | 146 |
| July | 85 | 112 | 121 | 108 | 117 | 105 | 122 | 101 | 128 | 102 | 121 | 95 | 110 | 118 | 121 | 112 | 128 | 124 | 147 |
| Aug. | 85 | 113 | 122 | 109 | 119 | 105 | 123 | 102 | 129 | 102 | 122 | 96 | 111 | 118 | 119 | 112 | 129 | 124 | 147 |
| Sept. | 85 | 113 | 124 | 109 | 119 | 106 | 123 | 102 | 129 | | 123 | 96 | 110 | 117 | 118 | 114 | 130 | 124 | 150 |
| Oct. | 85 | 114 | 124 | | | | | | 129 | | | | | | | | | 127 | 152 |
| | | Growth Rates, Percent | | | | | | | | | | | | | | | | | |
| July | 84 | 9 | 3 | 6 | 5 | 3 | 4 | 0 | 7 | 5 | 3 | 0 | 1 | 5 | 9 | 10 | 8 | 9 | 8 |
| Aug. | 84 | 8 | 4 | 5 | 5 | 4 | 4 | 0 | 7 | 7 | 4 | 0 | 1 | 5 | 9 | 8 | 9 | 9 | 9 |
| Sept. | 84 | 7 | 2 | 4 | 4 | 3 | 2 | 0 | 8 | 7 | 3 | 1 | 2 | 5 | 8 | 8 | 7 | 6 | 8 |
| Oct. | 84 | 6 | 0 | 4 | 1 | 4 | 2 | –1 | 7 | 4 | 4 | 2 | 3 | 6 | 8 | 7 | 9 | 6 | 9 |
| Nov. | 84 | 6 | 0 | 5 | 3 | 3 | 0 | –1 | 7 | 3 | 4 | 3 | 2 | 6 | 7 | 7 | 8 | 6 | 6 |
| Dec. | 84 | 6 | –1 | 5 | 4 | 3 | 2 | –2 | 4 | 2 | 4 | 3 | 4 | 6 | 9 | 7 | 8 | 3 | 5 |
| Jan. | 85 | 4 | 0 | 4 | 4 | 4 | 2 | –2 | 5 | 1 | 5 | 3 | 3 | 6 | 11 | 8 | 8 | 1 | 6 |
| Feb. | 85 | 4 | 2 | 4 | 4 | 3 | 6 | 0 | 5 | 2 | 8 | 2 | 4 | 4 | 12 | 8 | 10 | 2 | 5 |
| Mar. | 85 | 3 | 1 | 4 | 4 | 3 | 7 | 0 | 7 | 4 | 8 | 3 | 4 | 4 | 11 | 6 | 11 | 3 | 4 |
| Apr. | 85 | 4 | 0 | 4 | 4 | 4 | 6 | 1 | 6 | 1 | 8 | 3 | 3 | 4 | 11 | 5 | 12 | 4 | 4 |
| May | 85 | 3 | 1 | 5 | 5 | 4 | 6 | 2 | 6 | 3 | 11 | 4 | 3 | 5 | 11 | 8 | 12 | 4 | 5 |
| June | 85 | 2 | 0 | 5 | 5 | 4 | 7 | 2 | 7 | 3 | 8 | 3 | 2 | 3 | 9 | 6 | 13 | 2 | 5 |
| July | 85 | 2 | 1 | 5 | 6 | 6 | 7 | 3 | 6 | 3 | 9 | 2 | 0 | 4 | 7 | 8 | 14 | 0 | 6 |
| Aug. | 85 | 3 | 2 | 5 | 8 | 5 | 8 | 4 | 6 | 2 | 8 | 2 | 1 | 3 | 3 | 6 | 14 | –1 | 5 |
| Sept. | 85 | 3 | 5 | 5 | 7 | 5 | 8 | 3 | 5 | | 9 | 2 | –1 | 1 | 1 | 10 | 13 | –1 | 8 |
| Oct. | 85 | 3 | 4 | | | | | | 5 | | | | | | | | | 3 | 10 |
| | | Ten Year Annual Growth Rate, Percent | | | | | | | | | | | | | | | | | |
| 1969-79 | | 3 | 3 | 4 | 4 | 3 | 3 | 4 | 4 | 3 | 3 | 2 | 2 | 5 | 5 | 4 | 4 | 10 | 10 |

| | | 9 Countries | | 8 Countries ex. U.S. | | North America (2) | | Europe (4) | | Pacific Region (3) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Indexes, 1980 = 100 | | | | | | | | | |
| | | Perf. | Lead. | Perf. | Lead. | Perf. | Lead. | Perf. | Lead. | Perf. | Lead. |
| July | 84 | 106 | 116 | 104 | 114 | 109 | 119 | 98 | 115 | 112 | 112 |
| Aug. | 84 | 106 | 117 | 104 | 114 | 109 | 120 | 99 | 115 | 113 | 113 |
| Sept. | 84 | 107 | 117 | 104 | 115 | 110 | 120 | 99 | 115 | 113 | 114 |
| Oct. | 84 | 107 | 117 | 105 | 115 | 110 | 119 | 99 | 116 | 114 | 115 |
| Nov. | 84 | 107 | 117 | 105 | 115 | 111 | 119 | 99 | 116 | 115 | 115 |
| Dec. | 84 | 108 | 118 | 105 | 116 | 111 | 119 | 99 | 116 | 115 | 116 |
| Jan. | 85 | 108 | 118 | 105 | 117 | 111 | 120 | 99 | 117 | 116 | 118 |
| Feb. | 85 | 108 | 120 | 105 | 119 | 111 | 121 | 99 | 118 | 115 | 120 |
| Mar. | 85 | 108 | 120 | 106 | 119 | 111 | 120 | 100 | 119 | 116 | 120 |
| Apr. | 85 | 109 | 120 | 106 | 120 | 112 | 120 | 100 | 119 | 116 | 121 |
| May | 85 | 109 | 121 | 107 | 121 | 112 | 120 | 100 | 120 | 118 | 122 |
| June | 85 | 109 | 121 | 107 | 121 | 112 | 120 | 101 | 121 | 117 | 122 |
| July | 85 | 109 | 121 | 108 | 121 | 112 | 121 | 101 | 120 | 118 | 122 |
| Aug. | 85 | 110 | 122 | 107 | 121 | 113 | 122 | 101 | 122 | 117 | 121 |
| Sept. | 85 | 110 | 122 | 108 | 121 | 113 | 123 | 102 | 122 | 117 | 121 |
| | | Growth Rates, Percent | | | | | | | | | |
| July | 84 | 6 | 5 | 3 | 6 | 9 | 3 | 2 | 4 | 5 | 9 |
| Aug. | 84 | 5 | 5 | 4 | 6 | 8 | 4 | 2 | 4 | 5 | 9 |
| Sept. | 84 | 5 | 4 | 4 | 5 | 7 | 2 | 3 | 4 | 5 | 8 |
| Oct. | 84 | 4 | 3 | 4 | 5 | 6 | 0 | 2 | 4 | 6 | 8 |
| Nov. | 84 | 4 | 2 | 4 | 4 | 6 | 0 | 2 | 3 | 6 | 7 |
| Dec. | 84 | 4 | 3 | 3 | 5 | 6 | 0 | 1 | 3 | 6 | 9 |
| Jan. | 85 | 3 | 4 | 3 | 6 | 4 | 1 | 2 | 4 | 6 | 10 |
| Feb. | 85 | 3 | 5 | 3 | 8 | 4 | 2 | 2 | 6 | 4 | 12 |
| Mar. | 85 | 3 | 5 | 3 | 8 | 3 | 1 | 2 | 6 | 4 | 11 |
| Apr. | 85 | 3 | 4 | 3 | 7 | 4 | 1 | 3 | 5 | 4 | 11 |
| May | 85 | 3 | 5 | 4 | 7 | 3 | 1 | 3 | 6 | 6 | 11 |
| June | 85 | 2 | 4 | 3 | 7 | 2 | 1 | 3 | 6 | 4 | 9 |
| July | 85 | 3 | 4 | 4 | 6 | 2 | 1 | 4 | 5 | 4 | 8 |
| Aug. | 85 | 4 | 4 | 3 | 6 | 3 | 3 | 4 | 6 | 3 | 5 |
| Sept. | 85 | 3 | 5 | 3 | 4 | 3 | 5 | 4 | 5 | 2 | 3 |
| | | Ten Year Annual Growth Rate, Percent | | | | | | | | | |
| 1969-79 | | 4 | 4 | 4 | 4 | 3 | 3 | 3 | 3 | 5 | 5 |


Where We Are
Growth Rates,%, Performance Indexes
Nine Industrial Countries
Eight Countries Excluding United States
North America (2 Countries)
Europe (4 Countries)
Pacific Region (3 Countries)
1979 1980 1981 1982 1983 1984 1985
Where We're Headed
Growth Rates, %, Leading Indexes
Nine Industrial Countries
Eight Countries Excluding United States
North America (2 Countries)
Europe (4 Countries)
Pacific Region (3 Countries)
1979 1980 1981 1982 1983 1984 1985

Note: Horizontal dashed lines are average growth rates for 1969-79 in the index and in real GNP.
Sources: CIBCR and The Conference Board